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THE ROLE OF THE INDUSTRIAL RELATIONS SYSTEM IN ACHIEVING NATIONAL ECONOMIC OBJECTIVES: THE U.S. EXPERIENCE

Robert B. McKersie

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MASSACHUSETTS
INSTITUTE OF TECHNOLOGY
50 MEMORIAL DRIVE
CAMBRIDGE, MASSACHUSETTS 02139

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BY

Professor Robert B. McKersie

INTRODUCTION

Having chosen the very ambitious task of connecting industrial relations to the macro-economic picture, I should indicate at the outset what I hope to do (and by inference what I will not do). To most economists such matters as the structure of collective bargaining, the criteria that are used for wage determination and the process by which bargains are struck -- these matters can be put in a "black box" and can be conveniently ignored. While the labor market is important in understanding economy-wide developments, the economist gauges it with such focussed measures as the number who are unemployed, the growth of the labor force, and the number of job openings. The workings of the industrial relations system are seen as unnecessary institutional detail for the analytical models that economists are so fond of rising.

My bias runs in the other direction -- being much more of a micro-person, I believe that the economy (or the sum) can only be understood when the workings of the parts are understood. The employment relationship that brings employees (including management) together with capital and materials is the basic building block of the economy. Ultimately the economic objectives that we are interested in achieving (and also in analyzing and influencing) such as price stability, full employment, growth of the economy and equitable division of the "fruits" are not outcomes that are delivered from on high but are the summation of what

happens in various micro labor and product markets.

Even in instances where economic activity is represented by a national wage bargain (and the United States does not fall into this category), there are usually more exceptions than one would first think. Here I am thinking of such phenomena as wage drift, all manner of exceptions under national agreements and incomes policies, and the rich tapestry of deviations that market pressures always generate.

A further factor causing us to turn our zoom lens in the micro direction is that an important part of the unit labor cost equation, namely, productivity and by implication worker effort and commitment, can never be specified at the national level, let alone at the industry level -- rather this factor gets shaped and played out at the local level.

THE NATURE OF THE U.S. INDUSTRIAL RELATIONS SYSTEM

The U.S. system of industrial relations has many dimensions -- I will confine my attention to those aspects of the system that both relate to the national economic picture and are currently undergoing substantial change in the U.S. The major dimensions that I will comment on include: bargaining structure, criteria for wage determination and the process of decision making.

BARGAINING STRUCTURE

In thinking about the question of structure in the U.S. we can divide the post-World War II period into roughly two timeframes: one from the development of unions in most manufacturing industries, starting in the 1930's, continuing through to the peak of union organizing activity in the early 1950's and ending in the mid 1970's. The second time period begins with the intense economic restructuring of the late 1970's and continues

into the 1980's. The first period, which represented the stable period of post-World War II labor-management relations in the United States, was characterized by a bargaining structure that could be described as mixed, as between centralized and decentralized. On the one hand there were some some industry-wide agreements in such situations as steel, over-the-road trucking, longshoring, and telecommunications. Coming down the size ladder, there were also examples of very large company agreements such as in automobiles, rubber and in a number of other manufacturing industries. At the same time, there were many, many small plant-level local agreements (by latest count about 194,000). Indeed, the structure of collective bargaining in the United States by comparison to most other Western economies has a very strong decentralized character.

Another factor that should be mentioned is the importance of pattern setting/pattern following behavior across firms within an industry and in many instances across industries. For example, the Packinghouse Workers in Chicago followed for many years the pattern set by the steelworkers (an understandable linkage given the proximity of these two industries in the larger Chicago labor market). A strong tandem relationship also existed between developments in automobiles and rubber -- this relationship going back to some of the pronouncements of the War Labor Board.

Thus, while the U.S. structure of collective bargaining is not anywhere near as centralized as that existing in Scandinavia, or continental Europe, nevertheless it could be characterized as reasonably structured; and industries and regions of the country knew where they fell in the national hierarchy.

In passing, it should be noted that this orchestration of the structure took time to develop during the three decades after World War II. Bargaining in most industries initially started out at the plant level and it was only over time that master agreements were signed, that union and company leaders established organizational arrangements to give guidance to the successively greater centralization of collective bargaining. I studied the evolution of bargaining between International Harvester and the UAW during the 40's, 50's and 60's and it is a fascinating saga of how the parties over time developed centralized dealings and precedent -- and positioned themselves with respect to other companies in the farm equipment industry and the automobile industry. In general the key leaders on both sides achieved a stable and predictable niche for labor management relations between that major company (I-H) and that major union (UAW).

The advantages of centralization, tandem relationships and control of labor-management relations by full-time union and designated company staff people were severalfold. In a period of strong demand for manufactured products it was important to minimize labor unrest, and the codification of local and then master agreements and the elimination of interplant and interregional differentials helped to eliminate a source of discord and to make it possible to run the plants more smoothly. To use the jargon of modern day economics, imitation and the use of precedence are important factors in wage determination, given the difficulty in measuring the productivity (or revenue product) of most workers.

To take a page from Alfred Chandler, we can say that structure follows strategy or the imperatives operating on the parties. In many industries the driving force towards centralization and control was often the union that was trying to establish

itself and to present a united front to a company and to an industry. In most situations employers were happy to go along since unions were able to take wages out of competition and management could concentrate its attention on other areas of the business.

But all of that has changed and the character of the industrial relations system has undergone substantial alteration over the past several years. For example, the number of companies bargaining jointly in the steel industry has dropped from 12 to 7, the over-the-road agreement for long-distance trucking is in a shambles and it is only a matter of time before the de-regulation of the telephone company brings about more decentralized bargaining in that industry.

I do not have the time to go into all of the forms of economic pressure that have been working on the U.S. system but they fall into several categories: de-regulation (such as in trucking, airlines and communications), growth of the non-union sector -- which places competitive pressure on unionized firms, the steady increase in foreign imports, and finally the severest recession since the 1930's.

The magnitude and extent of the restructuring involved can be gauged as follows:

- Today no passenger tires are made in Akron -- the production has been dispersed to new plants around the country.
- Half the new autos bought in California are of Japanese origin.
- Between 10% and 15% of steel production now occurs in mini-mills which for the most part are not organized.
- Within the past several years a spate of large trucking companies have gone bankrupt, equally 20% of the capacity in the industry.

- In airlines, Braniff has gone bankrupt and several others are at the brink: Pan Am, Eastern, Western and Republic.

Thus, where before management placed primary emphasis on control and predictability; now the emphasis is on adaptability to competition and to lowering of costs. This means that the individual company or even a plant within a larger company master agreement needs to be broken out so that labor costs can be adjusted to the economic realities facing the particular enterprise. In a fundamental sense, bargaining structure always is derived from what the product market or the structure of competition will allow. When these competitive pressures are combined with a second change, namely, increased market segmentation, it is not possible to preserve existing structures on the collective bargaining side. Let me give several examples to illustrate this point:

- A large trucking company that we have been studying that pursues a full load, point-to-point niche in the market has found it necessary to cut its labor costs by almost 30% in order to compete with non-union driver/owner rigs. It has done this by paying wages as a percentage of revenues rather than the former mileage bonus stystem.
- In the steel industry, the peripheral product areas such as bridge fabrication and specialty steels, which have come under especially severe foreign competion, have had to be moved out of the master agreement. Similarly, in the rubber industry where heretofore many rubber products were covered by the same master agreement as tires are now handled by separate riders.

We do not as of yet have any overall measures as to the extent of the fragmentation that is taking place, but one indication is that in the BLS data that records the number of workers who are in agreements with more than 1,000 workers -- this figure has dropped from 10 million in the mid 1960's to just over 7 million today.

CRITERIA FOR WAGE DETERMINATION

Starting in 1948 (and formally codified in the 1950 auto settlement,) the major wage criteria for U.S. collective bargaining have been the twin themes of (1) wage indexation to price changes and (2) the sharing of the national productivity increase through what has been called the annual improvement factor. While the extent of indexation clauses has varied up and down depending upon whether inflation is dominant or not, by the late 1970's approximately half of the collective bargaining agreements contained some form of COLA (about 10 million workers). The proportion of inflation recovered under the clauses has averaged between 50 and 60 percent, with some of the agreements in automobiles going as high as 70 or 80 percent and in urban transit they were at 100 percent, i.e. a one-for-one recovery for inflation.

The rationale for indexation and the annual improvement factor -- what a colleague of mine, Harry Katz, has referred to as the wage rule -- are well known. These principles made it possible to institute the long-term agreement and these mechanisms helped achieve predictability and stability in collective bargaining, parallel to the establishment of centralized bargaining and the use of tandem relationships.

These principles seemed for a long time sacrosanct and both the Pay Board and the Pay Advisory Committee honored the concepts of indexation and annual improvement factor. The arrangements have been called into question with the double-digit inflation of the late 1970's and the rapid acceleration of wages, especially where cost of living clauses were present and where high recovery rates existed. For example, wages in automobiles and steel which had been 20 to 30 percent above the manufacturing average moved to a position 80 or 90 percent above the average by the early 1980's.[1]

What had originated as a "Fair" way to protect the purchasing power of the worker became a mechanism for driving wages in a number of manufacturing industries beyound the "affordability" limit. The irony of the situation is that union leaders did not receive any significant credit for the handsome increases in wages because the clauses were already in place and were doing their work automatically. If anything, union leaders during this period found it necessary to justify their existence and to turn their attention to new fringe benefit areas such as personal days off as the UAW did in its negotiations during the late 1970's with the automobile companies.

Probably, the escalation of wages would not have provoked a crisis if the U.S. economy had been closed and indexation had been fairly uniform across the economy. However, at about the same time, in a number of key industries the competitive picture was changing for the reasons mentioned earlier:

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[1]To be fair to the various studies of the impact of unions on relative wages, I should note that where unions enjoyed strong bargaining power wages went up relative to non-union wages (from a net difference of about 15% to 25%) regardless of the presence of indexation. In only two years, 1975 and 1978, when there was an unanticipated surge in prices did the indexation arrangements do better.

deregulation, foreign imports and the growth of the non-union sector. Thus, precisely at a time when product market conditions were changing significantly (increased pricing pressures and more segmentation), unit labor costs were spiraling as a result of the operation of the COLA clauses.

Thus, the stage was set for a large-scale assault on cost of living clauses and of the 300 concession agreements that we have analyzed on file in the Bureau of National Affairs, 80% of them contained either a freeze in wages (meaning the cost of living clause has been suspended) or a cut in wages. Significantly, in only a few cases have the cost of living clauses been actually eliminated from the contract, such as Braniff and more recently by Phelps Dodge. Both of these instances are companies that have taken a very confrontational approach to industrial relations.

What will happen in the future (with the clauses still in the contracts and still generating the numbers even though they are not applied) is an interesting question that I will return to at the end of this commentary.

It is too early to see a definitive pattern, but my guess is that the criteria for compensation will evolve in the direction of more emphasis on ability to pay and other factors that are related to the economics of the particular employment relationship. The problem with indexation is that it provides no opportunity for the employer to get something in return because it is related to economic developments generally in the economy and not to the margins or to the market share that the firm experiences for its products.

One of the airline companies that we have been working with is actively developing a concept to relate compensation to its margin and revenue position.

It is currently under a one-year grace period wherein wages have been reduced 10 percent and all cost of living adjustments frozen. It fears that there will be a "snap-back", come next autumn when the agreement expires; and it wants to be in a position to relate compensation for its five union groups to the economic situation that it will be facing -- one that involves competing with regional carriers and new non-union upstarts. Thus, the principles of basing compensation to some extent on profitability and contingent on performance are receiving increased attention.

In passing, we might note that the emergence of ability to pay as an important criteria for wage determination has been given increased prominence in the thinking of the country by the stringent situation that many governmental units, especially at the state and local level, have found themselves in. Whether we are talking about Proposition 13 of California or Proposition 2-1/2 of Massachusetts, it has become clear that governments are on the verge of being "broke" and arbitrators who set terms and conditions of employment, especially for police and fire, find that they must pay important attention to ability to pay in addition to the more traditional criteria for wage determination.

THE PROCESS OF DECISION MAKING

The theme that emerges from this panoramic view of U.S. collective bargaining is that the U.S. is moving to much more of a local system, both with respect to structure and criteria. Before commenting on the significance of this, I would like to take up several issues involved in the process of decision making -- i.e. to what extent will the process resemble free collective bargaining versus to what extent will it involve some kind of intervention by the government via incomes policy or perhaps even arbitration?

INCOMES POLICY

While there is not universal agreement, I think most economists in the United States would give low marks to the various programs that have been tried during the Post - World War II period to give some kind of guidance, either by exortation or by statute to wage movements. (1) Either the effort was a distortion of what the market would have dictated (e.g., in retrospect it is clear that when President Kennedy put pressure on the steel companies and did not allow them to increase prices he prevented them from generating some of the cash that they needed for modernization), (2) Or the action of the government only chilled the bargaining process (when President Johnson announced the settlement in airlines, he quickly was repudiated by the union and had to back off from what had been his "brilliantly" mediated settlement), (3) Or the procedure of the formal machinery perpetuated some institutional arrangements that needed to be modified (the emphasis of the Pay Board during the Nixon period on tandem relationships probably prevented the major manufacturing companies in the United States from starting to relate their labor costs to their differing economic situtions).

Without writing a complete bill of particulars, there are some other factors that should be mentioned in drawing up the scorecard for incomes policies:

- While it is true that the Pay Board restrained wages by about two percent over what they would have been, the machinery did not restrain prices, thereby creating an inequity. Notwithstanding the commentary by Weber and Mitchell, many economists feel that the standard of 5.5 percent under the Pay Board became the floor rather than the ceiling; in other words, for every pay bargain that is restrained the very promulgation of the standard created an upward expectation on the part of other workers.

- The program always has had the effect of centralizing the industrial relations system and as argued earlier, while wages can be dealt with centrally, the other important parts of the unit labor cost picture, such as productivity, work rules and wage payment systems, have to be handled locally and tend to be ignored during a period of wage controls.
- The interests of unorganized workers in the United States have not been well handled during periods of pay policy. Those whose wages were indexed (largely unionized) fared better than those on merit pay (largely unorganized). In the case of the machinery established by the Carter Administration, the program never got around to fringe benefits and almost all the attention was paid to the cases for blue collar workers and mainly those who were unionized.

In any event, we have an administration in office now that is firmly opposed to any kind of pay or price controls so the points that I have been making are for the moment rather academic. The current administration is also opposed to tri-partite type arrangements of any sort. The Carter Administration established a number of tri-partite type arrangements. One of the most noteworthy was that in steel (where the parties were able to agree on a significant change in the time table for the introduction of polution control equipment) and while the Reagan Administration has called the parties together and has said that it is re-establishing the machinery, it is clear that this is only for show.

The philosophy of the Reagan Administration is that problems have to be solved by the parties and probably at the local level and any effort to bring them together at the top for some kind of industrial policy or coordination w ll only produce more mistakes than solutions.

THE RECORD ON STRIKES

The current picture with respect to strikes is an extremely interesting one. In general, man days lost to strikes has declined and the number of strikes (frequency) has dropped even more. The few strikes that occur tend to be of longer duration. Very few strikes these days occur because unions are trying to better other settlements. One example, the strike at McDonnell-Douglas where the UAW has been attempting to improve on the pattern set at Boeing with the IAM,is all but broken with half the striking workers back at their jobs.

The only other example recently of what might be termed an "offensive strike" by a union (and it makes an important point) was that undertaken by the Air Controllers about 18 months ago. Generally speaking, unions have found themselves on the defensive and they have engaged companies in some long strikes to protect established positions, for example at International Harvester and Caterpillar. In a number of other cases there have been strikes where companies have followed a confrontational approach and have moved to operate on a non-union basis by hiring strike-breakers. Here I am referring to instances such as Continental Airlines, Phelps-Dodge and Greyhound.

Quite significantly, more and more employers are making plans and actually implementing them to operate facilities in the face of a strike. Whereas workers do have food stamps and in many cases have second incomes to draw upon, thereby giving them some staying power in a strike, it is my opinion that because of the example set by the Reagan Administration in operating the air traffic control system in the face of a strike (that everyone assumed would cripple the FAA) more and more employers are motivated to keep operations going

in the face of a strike, thereby shifting the power equation substantially in the favor of companies.

In the public sector, the number of strikes are down substantially -- for example, in 1983 New York State experienced a strike-free record for public employment. Some school systems have been on strike in other states but the numbers are not large and more and more contracts are being settled as a result of fact-finding and intensive mediation.

ARBITRATION

Arbitration has become institutionalized and serves as an important mechanism for resolving impasses in the public sector, especially for essential services, such as those provided by police and fire departments. Thomas Kochan, who has done some of the most extensive work on this subject, concludes that arbitration in the public sector can be evaluated as follows:

- Compared to mediation and fact-finding, arbitration is better and does prevent strikes. There is little chilling of bargaining, in other words, parties do not take cases to arbitration before they seriously bargain. And while there is some continued use of arbitration (what some researchers call the narcotic effect) it is not high and probably these jurisdictions would have trouble resolving their contract negotiations. In any event arbitration is an equitable resolution technique.
- Final offer arbitration achieves more settlements (in other words, has less of a chilling effect on the bargaining process) than conventional arbitration. The level of settlements under arbitration is a little higher than when the parties bargain under fact-finding without the option to go to arbitration but it is not enough of a differential to abandon the technique.

- The main drawback to arbitration (and this could be said about any third-party involvement in the collective bargaining process) is that it is conservative and does not allow for innovation and a re-examination of the fundamental aspects of the collective bargaining relationship. The point here is that where there is essentiality of service and arbitration is in the picture, there tends to be a continuation of work rules (such as in transit), and a concentration on the main economic issues that lend themselves to statistical and comparative treatment. Thus, the type of changes that management may feel it needs, such as more flexibility, new work arrangements (and there are many examples of these having been gotten through strikes in the private sector) are not dealt with very frequently when arbitration is the dispute resolution mechanism.

THE EMERGENCE OF A NEW SYSTEM

The changes that I have been describing in structure, criteria and process add up to a very fundamental change in the system of U.S. industrial relations, what might be called a sea-change. For economists who like to talk about wages in terms of an equation that predicts outcomes in terms of macro variables such as unemployment, as well as lag and interaction terms, I believe there has been a fundamental shift in the "functional form". Whereas during much of the past 30 years wage changes could be predicted from existing equations and relationships, what is going on now is a radical shift in the relationships. While it is possible that after the disequilibrium has run its course, we will return to regular relationships, for now we are in a major transition. One evidence of this is a big increase in the distribution of wage changes. The current average of approximately four to five percent increase in wages is made up of a number of settlements that contain wage reductions, a larger number

that have no increases and then a number that track settlements typical for those of several years, around seven or eight percent.

More circumstantial evidence about the fundamental change in the relationship between economic variables and compensation costs can be seen in the extensive number of concession agreements, not just in the wage changes, but in changes in work rules. Approximately 40 percent of these agreements incorporate important changes in work rules. General Motors, for example, has estimated that it has saved approximately three billion dollars in local work rule changes -- a number equal to what it has saved in the important concession agreement of 1982.

It is significant that this "shift in the line" has come about quite recently. As short a time ago as the 1979 bargaining round, we saw settlement numbers for the ensuing three years as follows: trucking 34%, rubber 41%, electrical equipment 30%, automobiles 36%, steel 32% and AT & T 28%. These high settlement levels were negotiated, despite the fact that there had been substantial softening of product market positions -- and profits had been running at a low level for some time. Indeed, Paul Lawrence of HBS observed in a recent study that U.S. Steel had been losing market share for most of the post - World War II period and had not been able to change the institutions of collective bargaining or to modify the rate of increase in labor costs during this inexorable decline in its market position (it had made an effort to change work rules in 1959).

It is clear that it has been difficult for employers to get unions and workers to accept changes before a crisis stage is reached. Recently I was talking with one of the architects of the Armour Automation Committee (an

effort that made a major contribution to economic change and cushioning the impact of that change) as to why the collaboration that was reached between management and union leaders in the committee did not get extended to the problem of wage costs and the competitiveness of the organized sector vis-a-vis new companies, like Iowa Beef and Missouri Beef. The simple answer was that the union was not about to take any step backward. Similarly, spokesmen for the Ford Motor Co. have commented that even though the 1982 negotiations did change the trend line, they felt that the UAW did not go anywhere near as far as the company felt necessary to re-establish the competitiveness of the automobile industry. General Motors estimated it would take a price reduction of $1,000 (translated into $5.00 per hour reduction in labor rates) to bring some of their products back into competition with foreign imports. The agreement of 1982 did not reduce wages in any absolute amount for Ford and General Motors -- rather, it postponed some future increases and removed some personal days. There were real savings (recall the figure mentioned of three billion for General Motors), but the negotiations did not eliminate the two thousand dollar per car cost difference by more than about five hundred dollars.

Why does it take a crisis for wages to go through a fundamental reformulation? The first point is that resistance to change is just an endemic fact of life in all employment relationships. In a CED study, it was the number one factor mentioned by management characterizing their organizations, whether they were unionized or not. When we add to this inherent inertia the fact that there is such pressure and equity considerations "to keep up with inflation", it is not surprising that customary arrangements are hard to change.

In passing, I might note that it is because of the difficulty in negotiating changes and redirecting expectations that have become so set in place, that many

companies in the United States have concluded that the best solution is to shut down the existing operations and start anew, either in another section of the country where wage-cost relationships can be reformulated or to go abroad to make or buy the product.

The point is that collective bargaining as an institution is good at distributing the fruits of economic progress and protecting workers who are part of the process but it is not very good at solving marketplace problems and realigning compensation to the new realities. The basic proposition is that if a union has enough power to raise labor costs out of line, it is unlikely that it will use that power to bring them back in line.

The economist refers to what I have been talking about as wage rigidity, in other words, the tendency for wages even in the face of excess capacity and high unemployment to remain rigid. In preparation for this lecture I began to draw up a list of the circumstances that foster wage rigidity and some of them are as follows: (1) where the union leaders from the national or industry levels have a critical say (because they are interested in comparability); (2) where the workers who are involved are senior; (3) where the community does not have an input to the decision making process; and (4) where the workers have other employment alternatives. The point is that wages are apt to be rigid where there is no threat to the employment of all of the workers involved in the employment relationship. For much of the post-war period, the effect of high wages was borne by the junior workers or those not hired into the employment relationship. It has only been more recently, when there have been enough plant shutdowns so all of the workers are threatened, that the employment consequences of high wages cannot be predicted. This represents the crossing of the divide.

This problem of unions not knowing how to loosen the grip of high wages is not new. Consider this quote from Slichter:

> "Some of the [wage] differentials which proved so destructive to unions during the 20's were the result of high wages bargained during the war which the unions were unwilling to adjust to the low level of prices and wages that followed the drop in war demand."

To turn the question around, we can identify the following circumstances where there are apt to be more concessions and a change in wage relationships: (1) where there have been other shutdowns in the same industry or area; (2) where the community has a stake and has the information; (3) where there is trust and a collaborative relationship, i.e., the workers believe the company's presentations; and (4) where the national union leadership knows that it is going to lose the membership (because the work in question will go outside its jurisdiction to a non-union plant or perhaps outside of the country unless changes are made). This is not the place to lay out all of the details of this model of rational economic decision making but it is possible to outline the circumstances wherein the probability of workers accepting an important downward revision in wages is high. These circumstances have been obtained in many industries and areas of the United States recently.

THE CHANGING CONTEXT FOR EMPLOYMENT SECURITY

One way to interpret the fundamental shift that has occurred in the economics of collective bargaining is in terms of employment security for most of the post-World War II period. Employment security or its converse, insecurity, was either ignored or viewed as a negative that had to be

eliminated. Today the reality of insecurity is being turned in a positive direction and there are many examples of how companies and unions have fashioned arrangements that say in effect to workers: "If we make changes, become more competitive, then we can eliminate the insecurity that is lurking in the environment."

Let me elaborate a little bit more about the approach that ignored job security. Perhaps, the best illustration of this is how employment decisions were made in the automobile industry until recently. Basically the union bargained over wages and benefits and the employer made the employment decisions independent of collective bargaining. The union to some degree was aware that there were employment consequences of higher wages and benefits, but since volume was growing any unemployment was hidden.

The approach to employment was a system of hiring workers when they were needed, then laying them off and keeping them in reserve through the supplemental unemployment system. This system worked very well and companies found that by and large most workers were available for recall when the economy picked back up or the model change-over was over and production resumed.

To use the terms of negotiation theory, we would say that during this phase of the industrial relations system in autos, the major companies and the UAW bargained _distributively_ over wages and fringe benefits but the subject that was potentially _integrative_, employment levels and the viability of the enterprise -- these subjects were never addressed jointly.

The other limited view of job insecurity held that it was a deterrent to the introduction of new technology or change in work methods -- as a result management needed to give assurance that workers would not lose their

jobs due to introducing a new machine or engaging in productivity bargaining. From this perspective security and employment assurances were seen as necessary but not sufficient conditions for good operations.

All of this has changed and we are now experiencing a new configuration of the main variables of the industrial relations system. One can view what has happened in the automobile industry as bringing employment levels very directly into the industrial relations picture. They may not be bargained over as such but there are many discussions about them and there is tacit agreement about a wide range of matters that affect employment for union members. For example, as a result of the Mutual Growth Forum the union learns the employment implications of world wide investment decisions. If employment is scheduled to be cut back due to high costs, the work force of the plant in question is given an opportunity to make changes and to bid for the business, and overarching all of these opportunities is a commitment by the company that domestic employment will not fall below a stated level. In one sense these understandings could be called employment enhancement compacts. These areas are not mandatory subjects of bargaining, so what is happening is happening on a voluntary basis, It is integrative in that the two sides are now coordinating their mutual interests around the viability of the enterprise and the employment levels therein associated.

In effect, the linkage has been turned around so that now the workers and their union representatives are motivated to improve productivity, to accept major restructuring -- as means for preserving the core of employment. For the company's part, there is a sharing of information and often a commitment of investment dollars and resources to make jobs more viable.

THE EMERGENCE OF LOCALIZATION

It is clear that the changes I have been describing taken together add

up to a new emphasis on localization of industrial relations. We are seeing the fitting of the employment relationship as a dependent variable to the product market factors that employment relationships have to confront. In addition to the wage criteria which have become much more localized, other developments on the American scene are part of this same trend. Quality of work life and the involvement of workers on a variety of participatory modes have become very dominant. Indeed, what started as innovative activities that were quite peripheral have become significant and have evolved to the point where the parties are altering work rules and changing the tenor of labor-management relationships. Within the management community there is considerable interest these days in "small is beautiful" and the establishment of small business units, whereby managers are given profit center responsibility for specific units and asked to operate them much as they would their own enterprises. In some cases financial compensation is arranged so that the team will share in the bottom line of the particular sub-piece that they are involved in.

THE AGENT OF CHANGE

It should be clear from this exposition of developments in the United States, that the lever for change has been management. Certainly, the pressure has come from the environment and we have seen a remarkable confluence of forces, almost like a sunspot effect, that has created intense pressure on corporations. However, that pressure has been mediated, been responded to by management -- with management moving in a variety of ways to meet the competitive threat. In some cases, the approach of management has been collaborative, e.g., using communication and information as the basis for creating the new system; in other cases the strategy has been confrontational.

In passing, I should note that in the case of the U.S. the government does not play a role in directing the change or in stimulating management directly. Certainly, government indirectly plays a role as it manages the

economy; the reality in the U.S. is that the government has created a recession and this has created pressure on management to make changes. However, management is the agent for change.

Another point is that until the economic pressure reached intense proportions some managements did not innovate aggressively with respect to new technology and new product lines. Often it is asserted that if collective bargaining takes wages out of competition, then companies will choose to compete on other dimensions. This is partially so, but the evidence suggests that compensating attention is not necessarily given to other areas of the business operation. It is when the survival question arrives that management's head gets focused and it begins to improve the business across all functions.

THE ROLE OF UNIONS

I do now want to be too cavalier concerning the role of unions in the emergence of this new system of industrial relations. As a political institution, unions must represent the thinking of their members, and by and large, this thinking has been resistant to changing hard won wage and fringe arrangements. For the early stages of this recession, it could have been easily assumed reasonably so, by rank and file as well as union leaders that this period of economic history would be no different that the recession of 1958/59 and the oil shock recessions of the 1970's. But once it became clear that some permanent new competitive forces were on the scene, union leaders could have taken the initiative rather than being put in the defensive posture of protecting customary arrangements. For example, the Steelworkers Union has clung to the industry structure for collective bargaining when it needed to confront the challenges on a company by company basis -- at the level where key business decisions are made. At the lowest level, unions have been slow to support quality of work life and gain sharing programs -- despite the evidence

that these ideas make sense to most rank and file and also help improve the viability of the enterprise and thereby the employment security of the members.

THE ROLE OF GOVERNMENT

I now depart even more sharply from fact and turn towards opinion. For my taste the current role of the federal government in the U.S. is too "benignly negative". We have paid a high price (in terms of unemployment) to achieve temporary price stability.

My recommendation would be for the government to proceed in an integrated fashion on a step-by-step basis to create the framework for growth, full employment and price stability. First, it is important to focus attention on the possibilities for productivity improvement as has been done spasmodically in Britain under the Prices and Incomes Board and in the U.S. under the Producttivity Commission. Second, government can be a good convener and tri-partite arrangements can produce change. Only as a last resort would I see government putting pressure on the parties via wage controls or restrictive monetary policies aimed at creating excess capacity in the economy.

SUMMARY

A number of points can be made in assessing the implications of these changes for the economic scene more generally. I have pressed the point that we probably have for the time being a new functional form in terms of wage-equation relationships. It is possible that we will have even a further change in the coefficients as a more decentralized bargaining structure allows wages to become more responsive to enterprise economics.

We will probably see a shorter duration in the length of collective bargaining agreements, since the principle of indexation has been set aside for the time being. We already have seen a shortening of agreements from three years down to two years.

On a macro basis, we have seen a turnaround in the trend line for productivity improvement. Some of this is due to the increase in economic activity but some of it also attributable to solving work rule problems and the reorganization of work.

Finally, we come to the important question whether the industrial relations system, with its somewhat centralized structure that is being decentralized, has coped adequately with the challenges at hand. It is clear that the non-union sector as well as the decentralized union sector has shown itself more resilient and adaptable over the past decade to economic challenges. The question is whether the industrial relations systems in industries such as steel, autos, rubber, trucking, construction and the other major industries that are the hallmark of U.S. collective bargaining will be as effective in responding to the challenge of the day as has been the case with the other sectors of our economy.

It is clear that a major step has been taken -- the system is responding - compensation is being related much more to ability to pay, to productivity -- rather than to economy wide measures or norms regarding the standard of living.

So in this constant interplay of the economic must and the human ought - the emphasis on the <u>enterprise</u> represents a new chapter in the history of U.S. industrial relations.